

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

BBF 1014 – FINANCIAL MANAGEMENT I
(All sections / Groups)

29 MAY 2017
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages.
2. Answer all the 4 questions.
3. Please write your answer in the answer booklet provided.

QUESTION 1

- a) Your brother just received RM380,000 from the year end performance bonus. He has decided to set this money aside and invest it for his retirement. Currently, your brother's goal is to retire from the beginning of the 30 years. How much more will he have in his account on the day he retires if he can earn a required rate of return at 6.5 percent rather than just 5.5 percent? (8 marks)
- b) On the first day of the year, James borrowed RM560,000 to buy a condominium at Melaka downtown. The mortgage financing rate offered by a local commercial bank is 6.5 percent. The mortgage loan is to be repaid in equal monthly payments over 25 years. The first payment is due on March 1. How much of the third payment applies to the amortization principle and interest payment? If James earns monthly salary of RM5,850, is his salary sufficient to pay for this mortgage installment? (8 marks)
- c) Alexander put a deposit of RM15,000 in his saving account earning 4 percent. After 3 years, he made another deposit into the same account. Four years later (that is, 7 years after his original RM10,000 deposit), the account balance is RM36,000. What was the amount of the deposit at the end of year 3? (8 marks)
- d) In order to support your tuition fees in the university, your father has decided to refinance his housing mortgage. He plans to borrow whatever is outstanding on his current housing mortgage. The current monthly payment is RM1,850 and he has made every payment on time. The original term of the housing mortgage was 20 years, and the mortgage is exactly five years and four months old. He has just made his monthly payment. The housing mortgage interest rate is 4.5 percent (APR). How much does your father owe on the mortgage today? (6 marks)

[TOTAL: 30 MARKS]

QUESTION 2

- a) Tangs Corporation has issued a corporate bond with the inflation risk premium of 2 percent, 3-months Treasury bill rate of 5 percent, the maturity risk premium on the bond is 3 percent, and the default risk premium on the bond is 2 percent. Determine its nominal rate of return. (3 marks)

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- b) A corporate bond with the 7 percents coupon rate to be paid semi-annually is trading at a price of RM1075.50. The bond has 15-years maturity. The face value of the bond is RM1,000.
- (i) Calculate the bond's yield to maturity (expressed as an Annual Percentage Rate, APR with semiannual compounding) (4 marks)
 - (ii) What will the bond's price if the bond's yield to maturity changes to 8.5% APR? (3 marks)

[TOTAL: 10 MARKS]

QUESTION 3

- a) Rights are a significant financial tool to safeguard the position of the existing shareholders in a corporation. Discuss how does a rights offering protect the shareholders against the dilution of ownership? (5 marks)
- b) Prex Oil & Gas Enterprise has just released the common stock dividends of RM1.50 per share to their shareholders. Zero growth of dividend has been expected in the next year. The stock dividend is anticipated to growth 3 percent in year 2, then 5 percent growth in year 3 and 4. In year 5 and thereafter, growth should be a constant 6 percent per year. What is the maximum price per share that an investor who expects a return of 9 percent should pay for Prex Oil & Gas Enterprise common stock? (10 marks)
- c) J&Co Enterprise is considering three stocks in their investment portfolio, which comprises of RM3,500 in stock X, RM1,000 in stock Y, and RM9,500 in stock Z. Stock X has a beta of 1.12, stock Y has a beta of 1.81, stock Z has a beta of 0.84, and the market beta is 1.0. Determine how much will be the total value of the portfolio and calculate beta of the portfolio. (8 marks)
- d) What is correlation, and briefly explain the impact of the return and risk when combining negatively correlated assets in a portfolio? (7 marks)

[TOTAL: 30 MARKS]

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QUESTION 4

- a) Oasis Furniture Industries Sdn. Bhd. makes use of 300 pieces of timbers per month on a continuous basis. The carrying cost of the timbers is RM35 per year and ordering cost is RM150 per order. It takes 20 days to receive a shipment after an order is placed and the firm requires a safety stock of 8 days of usage in inventory.
- (i) Determine the economic order quantity. (3 marks)
 - (ii) Calculate the total cost per year to order and carry this item. (5 marks)
 - (iii) Oasis Furniture has been informed by their supplier that, a discount will be offered to them if Oasis Furniture agrees to increase its Order Quantity by 24 units. Calculate the new total cost and determine how much the dollar discount that the suppliers will have to give Oasis Furniture to result in a net benefit to the company. (6 marks)
- b) YOGI Creative Enterprise has prepared a lockbox system to speed up the collection time of accounts receivable. The average collection period of YOGI is currently 53 days, an average age of inventory of 40 days, and an average payment period of 20 days. After YOGI decided to employ this lockbox system, it might reduce at least 5 days of the average collection periods float time. The total annual outlays of YOGI is RM28,000,000 (Assume a 360-day year.)
- (i) Calculate the cash conversion cycle after employment of the lockbox system. (3 marks)
 - (ii) Calculate the daily cash operating expenditure and the amount of resources needed to support its cash conversion cycle after YOGI has employed the lockbox system. (6 marks)
- c) Moven Enterprise recently just sold a 90-day commercial paper with a principle value of RM1,000,000. The firm has just received RM968,000. Determine the effective annual interest rate on the commercial paper. (Assume a 360-day year.) (7 marks)

[TOTAL: 30 MARKS]

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